

LIVINGSTON COUNTY
ROAD COMMISSION

FINANCIAL REPORT
December 31, 2005

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Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Livingston County Road Commission	County Livingston
Fiscal Year End 12/31/05	Opinion Date 06/21/06	Date Audit Report Submitted to State 08/04/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

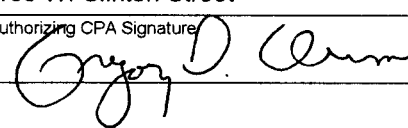
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	None	
Certified Public Accountant (Firm Name) Bredernitz, Wagner & Co., P.C.		Telephone Number 517-546-2130	
Street Address 109 W. Clinton Street		City Howell	State MI
Zip 48843			
Authorizing CPA Signature 	Printed Name Gregory D. Clum	License Number 1101014127	

LIVINGSTON COUNTY
ROAD COMMISSION

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BREDERNITZ, WAGNER & CO., P.C.

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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

CONSULTANTS

DAVID L. BREDERNITZ, CPA
HERBERT P. WAGNER, JR., CPA

INDEPENDENT AUDITORS' REPORT

To the Board of County
Road Commissioners
Livingston County
Howell, Michigan

We have audited the accompanying basic financial statements (as listed in the table of contents) of Livingston County Road Commission, a component unit of Livingston County, as of and for the year ended December 31, 2005. These financial statements are the responsibility of Livingston County Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and with the standards as provided in Public Act 71 of 1919, as amended, being Section 21.41 of the Michigan Compiled Laws. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Livingston County Road Commission as of December 31, 2005, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis (pages 3-13) and the budgetary comparison information (pages 40-42) are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Livingston County Road Commission's basic financial statements, taken as a whole. The introductory section, budgetary comparison information and other supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section, budgetary comparison information and other supplemental information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Braden, Wagner & Co., P.C.

Howell, Michigan
June 21, 2006

LIVINGSTON COUNTY ROAD COMMISSION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2005
(Unaudited)**

Our discussion and analysis of Livingston County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2005. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down among primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all the Road Commission's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities. This is one way to measure Livingston County Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds, reporting the operations in more detail than the government-wide statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2005
(Unaudited)

Reporting the Road Commission as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission as a whole and about its activities in a way that helps answer the question of whether the financial status of the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two statements mentioned above report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the county's development and growth, the condition of the Road Commission's roads, and changes in the law related to motor vehicle taxes and its distribution need to be considered.

Fund Financial Statements

The Road Commission currently has three funds, the special revenue fund, the debt service fund, and the fiduciary fund.

All of the Road Commission's activities are accounted for in the special revenue fund. The debt service fund accounts for the capital lease payments to the Livingston County Building Authority. These funds are governmental fund types. Our analysis of the Road Commission's major fund, the special revenue fund, begins on page 9. The fund financial statements begin on page 16 and provide detailed information about the major fund.

Governmental funds focus on how money flows into and out of the funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2005
(Unaudited)

Reporting the Road Commission as a Whole (Concluded)

Fund Financial Statements (Concluded)

operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental funds in a reconciliation following the fund financial statements.

The fiduciary fund statements provide financial information about activities for which Livingston County Road Commission acts solely as a trustee or agent for the benefit of the employees of the Road Commission.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased approximately 9.16%, or \$6,272,013, from \$68,500,770 to \$74,772,783 for the year ended December 31, 2005. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, all assets (except for assets invested in capital fixed assets, net of related debt) are considered restricted. The restricted net assets decreased by \$435,474 during 2005.

The investment in capital fixed assets, net of related debt, increased by \$6,707,487. The increase in net assets is primarily the result of the increase in infrastructure of \$11,060,289 for the year 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2005
(Unaudited)

Financial Analysis of the Road Commission as a Whole (Continued)

Net Assets (Concluded)

Net assets as of December 31, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Current and Other Assets	\$ 6,671,500	7,240,210
Capital Assets, Net	<u>73,688,996</u>	<u>67,100,359</u>
Total Assets	<u>80,360,496</u>	<u>74,340,569</u>
Long-Term Debt Outstanding	5,183,998	5,566,233
Other Liabilities	<u>403,715</u>	<u>273,566</u>
Total Liabilities	<u>5,587,713</u>	<u>5,839,799</u>
Net Assets		
Invested in Capital Fixed		
Assets Net of Debt	70,304,808	63,597,321
Restricted	<u>4,467,975</u>	<u>4,903,449</u>
Total Net Assets	<u>\$74,772,783</u>	<u>68,500,770</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2005
(Unaudited)

Financial Analysis of the Road Commission as a Whole (Continued)

Change in Net Assets

A comparative summary of changes in net assets for the years ended December 31, 2005 and 2004, is as follows:

	<u>Governmental Activities</u>	
	<u>12/31/05</u>	<u>12/31/04</u>
Program Revenues:		
State grants	\$12,827,749	12,236,877
Federal grants	3,132,924	2,035,834
Charges for services	72,957	13,100
Contributions from local units	3,295,372	1,714,136
Interest income	39,438	51,206
Investment income	123,295	45,368
Other revenues	256,860	145,387
General Revenue:		
Gain on equipment disposal	<u>453,305</u>	<u>7,275</u>
Total Revenues	<u>20,201,900</u>	<u>16,249,183</u>
Expenses:		
Public works	13,740,128	12,413,304
Interest expense	<u>189,759</u>	<u>271,574</u>
Total Expenses	<u>13,929,887</u>	<u>12,684,878</u>
Increase in Net Assets	<u>\$ 6,272,013</u>	<u>3,564,305</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2005
(Unaudited)

Financial Analysis of the Road Commission as a Whole (Continued)

The Road Commission's Fund

The Road Commission's special revenue fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2005, the fund balance of the special revenue fund decreased \$577,005, as compared to a increase of \$1,485,140 in the fund balance for the year ended December 31, 2004. Total operating revenues were \$20,435,671, an increase of \$3,943,465 as compared to last year. This change in revenues resulted primarily from an increase in township contributions of \$1,501,230, and an increase in federal aid of \$1,097,090.

For the year ended December 31, 2005, total expenditures were \$21,012,676, an increase of \$6,005,610, as compared to last year. There was an increase in net capital outlay in the amount of \$704,554 from the prior year.

A summary of changes in the Operating Fund is shown on the following page.

(This section intentionally left blank.)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2005
(Unaudited)

Financial Analysis of the Road Commission as a Whole (Concluded)

The Road Commission's Fund (Concluded)

	<u>12/31/2005</u>	<u>12/31/2004</u>	<u>Difference</u>	<u>Variance %</u>
Revenues:				
State grants	\$ 12,827,749	12,236,877	590,872	4.83 %
Federal grants	3,132,924	2,035,834	1,097,090	53.89
Charges for services	72,957	13,100	59,857	456.92
Contributions from local units	3,385,338	1,884,108	1,501,230	79.68
Special assessments	25,382	73,051	(47,669)	(65.25)
Interest income	39,438	51,206	(11,768)	(22.98)
Investment income	123,295	45,368	77,927	171.77
Proceeds from disposal of assets	571,728	7,275	564,453	7,758.80
Other revenues	256,860	145,387	111,473	76.67
Total revenues	<u>20,435,671</u>	<u>16,492,206</u>	<u>3,943,465</u>	<u>23.91</u>
Expenditures:				
Primary road	8,219,633	5,890,517	2,329,116	39.54
Local road	9,449,372	6,237,806	3,211,566	51.49
Primary road structures	351,507	1,217,093	(865,586)	(71.12)
Local road structures	767,866	116,442	651,424	559.44
Roadside parks	5,055	6,186	(1,131)	(18.28)
Equipment	271,536	(433,018)	704,554	(162.71)
Administrative	667,888	701,354	(33,466)	(4.77)
Capital outlay	(349,506)	212,649	(562,155)	(264.36)
Debt service:				
Principal retirement	1,446,072	770,368	675,704	87.71
Interest and fiscal charges	183,253	287,669	(104,416)	(36.30)
Total expenditures	<u>21,012,676</u>	<u>15,007,066</u>	<u>6,005,610</u>	<u>40.02</u>
Excess (Deficiency) of revenues over (under) expenditures	<u>(577,005)</u>	<u>1,485,140</u>	<u>(2,062,145)</u>	<u>(138.85)</u>
Other financing sources (uses):				
Operating transfers in	478,170	533,863	(55,693)	(10.43)
Operating transfers out	(478,170)	(533,863)	55,693	10.43
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	
Excess (Deficiency) of revenues and other sources over (under) expenditures and other uses	<u>(577,005)</u>	<u>1,485,140</u>	<u>(2,062,145)</u>	<u>(138.85)</u>
Fund Balances - beginning	<u>6,118,974</u>	<u>4,633,834</u>	<u>1,485,140</u>	<u>32.05</u>
Fund Balances - ending	<u>\$ 5,541,969</u>	<u>6,118,974</u>	<u>(577,005)</u>	<u>(9.43)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2005
(Unaudited)

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at the time. During the year, the Board of County Road Commissioners acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the Board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2005 was \$1,365,882 higher than the original budget primarily due to the Road Commission receiving additional federal aid projects. There was also an increase in township contributions. The actual revenue recognized during 2005 was higher than the final amended budget by \$163,009.

The final amended expenditure budget for 2005 was \$1,044,775 higher than the original budget primarily due higher than anticipated debt service payments. There was also an increase in local road heavy maintenance expenditures as a result of an increase in township contributions. The actual expenditures recognized during 2005 were less than the final amended budget by \$521,302. There were some unfavorable variance expenditure line-items as disclosed in Note 16 of the financial statement notes.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2005
(Unaudited)

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2005, the Road Commission had invested \$133,329,296 in capital assets. This amount represents a net increase (including additions and deductions) of \$11,752,183 or 9.67% as follows:

	<u>12/31/05</u>	<u>12/31/04</u>	<u>Variance</u>	<u>Variance %</u>
Capital assets not being depreciated:				
Land and improvements	\$ 267,939	267,939	-	- %
Land/right-of-way	579,301	579,301	-	-
Subtotal	<u>847,240</u>	<u>847,240</u>	<u>-</u>	<u>-</u>
Capital assets being depreciated:				
Buildings	6,998,316	6,993,816	4,500	0.06
Road equipment	8,664,095	8,001,677	662,418	8.28
Office equipment	193,060	402,993	(209,933)	(52.09)
Engineers' equipment	417,177	109,920	307,257	279.53
Shop equipment	110,472	182,820	(72,348)	(39.57)
Yard and storage	71,497	71,497	-	-
Infrastructure	115,538,896	104,478,607	11,060,289	10.59
Depletable assets	488,543	488,543	-	-
Subtotal	<u>132,482,056</u>	<u>120,729,873</u>	<u>11,752,183</u>	<u>9.73</u>
Total capital assets	133,329,296	121,577,113	11,752,183	9.67
Total accumulated depreciation	<u>59,640,300</u>	<u>54,476,754</u>	<u>5,163,546</u>	<u>9.48</u>
Total net capital assets	\$ <u>73,688,996</u>	<u>67,100,359</u>	<u>6,588,637</u>	<u>9.82</u>

The Road Commission reported the infrastructure acquired during the current year in the amount of \$11,060,289. The infrastructure recorded is depreciated over the estimated useful lives of the infrastructure assets using the half-year convention of straight-line depreciation. The infrastructure is financed through federal, state, and local contributions.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2005
(Unaudited)

Capital Assets and Debt Administration (Concluded)

Capital Assets (Concluded)

This year's major capital asset additions included the following:

Bridge construction	\$ 1,071,221
Various reconstruction projects	9,989,068
Other equipment	<u>1,738,672</u>
Total additions	<u>\$12,798,961</u>

Each year the Road Commission disposes of obsolete and worn out equipment. During 2005, the Road Commission traded in and/or disposed of equipment (road and office) with a purchase amount of \$1,046,778, related accumulated depreciation of \$928,325, and net book value of \$118,453.

Debt

At the year end, the Road Commission had \$4,806,935 in bonds, sewer assessments, and installment purchase agreements versus \$5,197,877 as of December 31, 2004, a decrease of 7.52% as shown below:

	<u>12/31/05</u>	<u>12/31/04</u>	<u>Variance</u>	<u>Variance %</u>
Bonds payable	\$1,400,000	1,665,000	265,000	15.92%
Sewer assessment	22,747	29,837	7,090	23.76
Capital lease agreements	<u>3,384,188</u>	<u>3,503,040</u>	<u>118,852</u>	3.39
Total	<u>\$4,806,935</u>	<u>5,197,877</u>	<u>390,942</u>	7.52

Other obligations include accrued vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Note 8 of the financial statement notes.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Concluded)
For the Year Ended December 31, 2005
(Unaudited)

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2006 budget. One of the factors is the economy. The Road Commission derives approximately 60%-70% of its revenues from the motor vehicle tax collected. Using Michigan Department of Transportation projection, it is estimated that the Road Commission will receive fewer Michigan Transportation Fund revenues in 2006 as in 2005, due to a significant decrease in vehicle registrations. The Road Commission received approximately 17% of its revenues from township contributions during 2005. This amount fluctuates with the approved road projects and depends on which townships choose to participate and how much the townships can afford to contribute. During 2006, we expect to receive at least \$2,000,000 in federal and state grants for road projects, some of which was deferred from 2005.

The above items were considered when adopting the budget for 2006. Amounts available for appropriation in the budget are \$18,465,582, a decrease of 20.7% under the 2005 final amended budget of \$23,284,707.

Contacting the Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Livingston County Road Commission's administrative offices at (517)546-4250, extension 116.

LIVINGSTON COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
December 31, 2005

ASSETS

Cash and cash investments	\$ 1,587,609
Accounts receivable (Note 4):	
State highway - other	1,952,049
Due from State of Michigan	339,460
Due on county road agreements	1,294,480
Due on special assessments	228,437
Sundry accounts	82,919
Inventories:	
Equipment, fuel, materials and parts	374,839
Road materials	811,707
Capital assets net of accumulated depreciation (Note 5)	<u>73,688,996</u>
Total Assets	<u>80,360,496</u>

LIABILITIES

Current Liabilities:	
Accounts payable	289,200
Wages payable	62,065
Developers escrow	10,029
Interest payable	42,421
Long-term debt - due within one year (Note 8)	<u>1,214,492</u>
Total Current Liabilities	1,618,207
Noncurrent Liabilities:	
Long-term debt - due after one year (Note 8)	<u>3,969,506</u>
Total Liabilities	<u>5,587,713</u>

NET ASSETS

Investment in capital fixed assets net of related debt	70,304,808
Restricted for County Road	<u>4,467,975</u>
Total Net Assets	<u>\$ 74,772,783</u>

The Notes to Financial Statements are an integral part of this statement.

LIVINGSTON COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2005

Program Expenses:	
Primary road	\$ 3,720,517
Local road	3,959,420
Primary road structures	33,554
Local road structures	14,597
Roadside parks	5,055
Administrative	667,888
Compensated absences	8,707
Equipment - net	264,829
Infrastructure depreciation	5,065,561
Interest expense	<u>189,759</u>
Total Program Expenses	<u>13,929,887</u>
Program Revenue:	
State grants	12,827,749
Federal grants	3,132,924
Charges for services	72,957
Contributions from local units	3,295,372
Interest income	39,438
Investment income	123,295
Other revenues	<u>256,860</u>
Total Program Revenue	<u>19,748,595</u>
Net Program Revenue	<u>5,818,708</u>
General Revenue:	
Gain on equipment disposal	<u>453,305</u>
Change in Net Assets	6,272,013
Net Assets - January 1, 2005	<u>68,500,770</u>
Net Assets - December 31, 2005	<u><u>\$ 74,772,783</u></u>

The Notes to Financial Statements are an integral part of this statement.

LIVINGSTON COUNTY ROAD COMMISSION
GOVERNMENTAL FUNDS
BALANCE SHEET

December 31, 2005

ASSETS	Special Revenue	Debt Service	Total
Cash and cash investments (Note 3)	\$ 1,587,609	-	1,587,609
Accounts receivable (Note 4):			
State highway - other	1,952,049	-	1,952,049
Due from State of Michigan	339,460	-	339,460
Due on county road agreements	1,294,480	-	1,294,480
Due on special assessments	228,437	-	228,437
Sundry accounts	82,919	-	82,919
Inventories:			
Equipment, fuel, materials and parts	374,839	-	374,839
Road materials	811,707	-	811,707
Total Assets	\$ <u>6,671,500</u>	<u>-</u>	<u>6,671,500</u>
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable	\$ 289,200	-	289,200
Wages payable	62,065	-	62,065
Deferred revenue (Note 4)	768,237	-	768,237
Developers escrow	10,029	-	10,029
Total Liabilities	<u>1,129,531</u>	<u>-</u>	<u>1,129,531</u>
Fund Equity:			
Fund Balances:			
Reserved for inventories	1,186,546	-	1,186,546
Unreserved:			
Undesignated	4,355,423	-	4,355,423
Total Fund Equity	<u>5,541,969</u>	<u>-</u>	<u>5,541,969</u>
Total Liabilities and Fund Equity	\$ <u>6,671,500</u>	<u>-</u>	<u>6,671,500</u>

The Notes to Financial Statements are an integral part of this statement.

LIVINGSTON COUNTY ROAD COMMISSION
 RECONCILIATION OF THE BALANCE SHEET FUND BALANCE
 TO THE STATEMENT OF NET ASSETS

For the Year Ended December 31, 2005

Total Governmental Fund Balance	\$	5,541,969
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		73,688,996
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Deferred revenue is not available to pay for current period expenditures and therefore is not reported in the governmental funds.		768,237
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Interest expense does not require the use of current financial resources and therefore is not reported as an expenditure in the governmental funds.		(42,421)
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		<u>(5,183,998)</u>
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Net Assets of Governmental Activities	\$	<u><u>74,772,783</u></u>
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The Notes to Financial Statements are an integral part of this statement.

LIVINGSTON COUNTY ROAD COMMISSION
GOVERNMENTAL FUNDS
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

For the Year Ended December 31, 2005

	Special Revenue	Debt Service	Total
Revenues:			
State grants	\$ 12,827,749	-	12,827,749
Federal grants	3,132,924	-	3,132,924
Charges for services	72,957	-	72,957
Contributions from local units	3,385,338	-	3,385,338
Special assessments	25,382	-	25,382
Interest income	39,438	-	39,438
Investment income	123,295	-	123,295
Proceeds from sale of assets	571,728	-	571,728
Other revenues	256,860	-	256,860
Total Revenues	<u>20,435,671</u>	<u>-</u>	<u>20,435,671</u>
Expenditures:			
Primary road	8,219,633	-	8,219,633
Local road	9,449,372	-	9,449,372
Primary road structures	351,507	-	351,507
Local road structures	767,866	-	767,866
Roadside parks	5,055	-	5,055
Equipment	271,536	-	271,536
Administrative	667,888	-	667,888
Net capital outlay (Note 6)	(349,506)	-	(349,506)
Debt service:			
Principal retirement	1,056,072	390,000	1,446,072
Interest and fiscal charges	95,083	88,170	183,253
Total Expenditures	<u>20,534,506</u>	<u>478,170</u>	<u>21,012,676</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(98,835)</u>	<u>(478,170)</u>	<u>(577,005)</u>
Other Financing Sources (Uses):			
Operating transfers in	-	478,170	478,170
Operating transfers out	(478,170)	-	(478,170)
Total Other Financing Sources (Uses)	<u>(478,170)</u>	<u>478,170</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Sources over (under) Expenditures and Other Uses	<u>(577,005)</u>	<u>-</u>	<u>(577,005)</u>
Fund Balances - January 1, 2005	<u>6,118,974</u>	<u>-</u>	<u>6,118,974</u>
Fund Balances - December 31, 2005	<u>\$ 5,541,969</u>	<u>-</u>	<u>5,541,969</u>

The Notes to Financial Statements are an integral part of this statement.

LIVINGSTON COUNTY ROAD COMMISSION
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2005

Net change in fund balance - total governmental funds	\$ (577,005)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	5,651,930
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Governmental funds report gross proceeds from sale of assets. However, in the statement of activities, the realized gain from sale of assets is reported net of accumulated depreciation. This amount is the net book value of the assets disposed.	(118,423)
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Repayment of notes/leases payable is an expenditure in the governmental funds, but reduces the long-term liabilities in the statement of net assets.	1,446,072
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Increase in interest expense	(6,505)
Increase in compensated absences	(8,707)

Deferred revenues collected during the year are not considered current revenues in the statement of activities.	(115,349)
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Change in Net Assets of Governmental Activities	\$ <u>6,272,013</u>
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The Notes to Financial Statements are an integral part of this statement.

LIVINGSTON COUNTY ROAD COMMISSION
FIDUCIARY FUND
STATEMENT OF NET ASSETS

December 31, 2005

ASSETS

Mutual funds	\$ <u>2,501,527</u>
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NET ASSETS

Held in trust for employee benefits	\$ <u><u>2,501,527</u></u>
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The Notes to Financial Statements are an integral part of this statement.

LIVINGSTON COUNTY ROAD COMMISSION
FIDUCIARY FUND
STATEMENT OF CHANGE IN NET ASSETS

For the Year Ended December 31, 2005

Additions:		
Net investment earnings	\$	160,067
Employee contributions		<u>153,461</u>
Total additions		<u>313,528</u>
Deductions:		
Asset fees		9,311
Employee withdrawals/transfers		<u>97,537</u>
Total deductions		<u>106,848</u>
Change in net assets		206,680
Net assets - January 1, 2005		<u>2,294,847</u>
Net assets - December 31, 2005	\$	<u><u>2,501,527</u></u>

The Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

Note 1. REPORTING ENTITY AND BASIS OF PRESENTATION

Definition of the reporting entity:

Livingston County Road Commission, which is established pursuant to the county road law (MCL 224.1), is governed by an appointed three member Board of County Road Commissioners. The Road Commission may not issue debt or levy a tax without the approval of the County Board of Commissioners. If approval is granted, Road Commission taxes are levied under the taxing authority of Livingston County, as approved by the county electors, and would be included as part of the County's total tax levy, as well as reported in the Livingston County Road Fund.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 The Financial Reporting Entity, these financial statements present the Local Unit which is a component unit of Livingston County. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based on the above criteria, the financial statements present Livingston County Road Commission, a discreetly presented component unit of Livingston County.

Basis of presentation:

Government-wide Financial Statements:

The government-wide financial statements, i.e. the Statement of Net Assets and the Statement of Changes in Net Assets, report information on all of the activities of Livingston County Road Commission. There are two funds reported in the government-wide financial statements, the Special Revenue Fund (which serves as the general operating fund) and the Debt Service Fund. The Special Revenue Fund is the only major fund.

The Statement of Net Assets presents Livingston County Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

Note 1. REPORTING ENTITY AND BASIS OF PRESENTATION (Continued)

Basis of presentation (continued):

Government-wide Financial Statements (concluded):

1. Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment,
2. Grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Taxes and other items are not considered program revenues and are reported instead as general revenue.

Fund Financial Statements:

In order to ensure observance of limitations and restrictions placed on the use of the resources available to Livingston County Road Commission, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds which are maintained in accordance with the activities or objectives specified. A brief description of each of the types of funds, as they apply to the Road Commission, is noted below.

Governmental Funds:

Governmental funds include the following fund types:

Special Revenue Fund: This fund is used to account for specific revenues which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements. The Road Commission Operating Fund is used to control expenditures of Michigan Transportation Fund monies distributed to the County which are earmarked by law for street and highway purposes.

Debt Service Fund: This fund accounts for the accumulation of resources for, and the payment of, interest and principal on general long-term debt. This fund is being used to account for the repayment of long-term debt used to finance Livingston County Road Commission's current facility.

Note 1. REPORTING ENTITY AND BASIS OF PRESENTATION (Concluded)

Basis of presentation (concluded):

Fiduciary Fund:

The fiduciary fund accounts for assets held by the government in a trustee capacity on behalf of others. This fund is accounted for using the accrual basis of accounting.

Trust Fund: This fund accounts for assets held by the governmental unit in a trustee capacity for individuals. The only trust fund of Livingston County Road Commission is an expendable trust fund for deferred compensation of employees.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Livingston County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards board (GASB) is the standard-setting body for governmental accounting and financial reporting. A summary of the significant accounting policies used by Livingston County Road Commission is listed below.

Measurement Focus/Basis of Accounting:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus/Basis of Accounting (concluded)

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Cash and Cash Equivalents:

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired.

Investments:

Investments are stated at cost. Interest earned is recorded as revenue when the investment matures or when credited, by the financial institution, to the interest bearing account.

Inventories:

Inventories are stated at cost as determined using an average costing method. Inventory items are charged to road construction, equipment maintenance, repairs, and operations as used.

Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements.

Capital assets are defined by Livingston County Road Commission as assets with an initial individual cost of \$500 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost at the time of purchase or construction. Donated capital assets and donated infrastructure (dedicated roads) are recorded at estimated fair market value at the date of donation.

Depreciation:

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and the straight-line method for all other fixed assets and for infrastructure.

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation (concluded):

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to a depreciation credit account. Accordingly, in the Fund Financial Statements, the annual depreciation expense does not affect the available operating equity of the Special Revenue Fund.

The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road equipment	5 to 8 years
Shop equipment	10 years
Engineering equipment	4 to 10 years
Office equipment	4 to 10 years
Yard and storage equipment	10 to 20 years
Infrastructure-roads	8 to 30 years
Infrastructure-bridges	12 to 50 years

Capitalized Interest:

There were no capitalized interest costs incurred by Livingston County Road Commission during the year ended December 31, 2005.

Compensated Absences (Vacation and Sick Leave):

The estimated portion of the liability for vested vacation and sick leave benefits attributable to Livingston County Road Commission's governmental funds is recorded as an expenditure and liability in the respective funds. The amount payable to employees for compensated absences is included in the government-wide financial statements. Please see Note 7 for more detail.

Non-Exchange Transactions:

Livingston County Road Commission participates in voluntary non-exchange transactions with the Michigan Department of Transportation in the form of contracted road construction projects. The Road Commission records the revenue and corresponding construction expense throughout the year as the project completion vouchers are received. These amounts have been included as infrastructure in the government-wide Statement of Net Assets.

Long-term Obligations:

In the government-wide Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities of the Special Revenue Fund.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Equity:

Reserves of fund equity in the Fund Financial Statements represent portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Deferred Compensation Plan:

Livingston County Road Commission offers all employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. Effective January 1, 1997, the assets of the plan were transferred to a trust held in a custodial account as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. In accordance with GASB Statement No. 32 requirements, the assets of the trust are reported in a fiduciary fund and are not reflected in Livingston County Road Commission's financial statements. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The Administrator, Nationwide Retirement Solutions, is agent of the employer for purposes of providing direction to the custodian of the custodial account, from time to time, as to the investment of the funds held in the account, transfer of assets to or from the account, and all other matters.

At December 31 2005, the carrying amount and market value of the investments of the deferred compensation plan held by Nationwide Retirement Solutions was \$2,501,527.

Budgets and Budgetary Accounting:

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, MCL 141.421, which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's managing director

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

Budgets and Budgetary Accounting (concluded):

prepares and submits a proposed operating budget to the Board of Road Commissioners for its review and consideration. The Board conducts a public budget hearing and approves the budget. The budget is amended as necessary during the year and all amendments are approved by the Board. Appropriations lapse at year end. The budget is prepared on the modified accrual basis of accounting, which is the same basis used for the fund financial statements.

Note 3. CASH AND CASH INVESTMENTS

Deposits are carried at cost. The Livingston County Treasurer handles investments for the Road Commission. Deposits of Livingston County Road Commission are in the name of the Livingston County Treasurer. Livingston County Road Commission follows the same investment policy as Livingston County. Livingston County's investment policy authorizes the County Treasurer to invest in the following types of securities: bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; United States or Federal agency obligation repurchase agreements; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution; commercial paper rated at the time of purchase at the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase; bankers' acceptances of United States banks; obligations of the state or any of its political subdivisions that, at the time of purchase, are rated as investment grade by not less than one standard rating service; obligations described above if purchased through an interlocal agreement under the urban cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512; investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118; investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150. Livingston County Road Commission's deposits and investments are in accordance with statutory authority and the provisions of PA 20 of 1943.

The cash and cash investments of the Road Commission are subject to various types of risk, which are examined in more detail below:

Custodial Credit Risk - deposits: Custodial credit risk is the risk that in the even of a bank failure, the Road Commission's deposits may not be returned to it. The Road Commission does not have a deposit policy for custodial credit risk.

Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an

Note 3. CASH AND CASH INVESTMENTS (Concluded)

investment. Generally, the longer the maturity of an investment, the sensitivity of its fair value to changes in market interest rates is greater. The Road Commission's interest rate risk is minimized because the Livingston County Treasurer only invests Road Commission cash in short-term certificates of deposit and holds the certificates to maturity.

Concentration of Credit Risk: The Road Commission follows the investment policy of Livingston County. Livingston County's investment policy requires that it shall diversify its investments by security type and institution by allowing no more than 60 percent of the total investment portfolio to be invested in a single security type, or with a single financial institution. Livingston County Road Commission has no investments, as all of its funds are deposited in certificates of deposit, savings accounts, and checking accounts by the Livingston County Treasurer.

At year end, Livingston County Road Commission had bank deposits of \$1,904,442. The difference of \$316,833 between the bank deposit balance and the carrying value of \$1,587,609 represents checks written but not yet cashed at year end, petty cash, and cash on hand.

Livingston County Road Commission has one investment with a local bank in the amount of \$50,000. This amount is fully FDIC insured. The balance of Livingston County Road Commission's cash is combined with all of Livingston County's cash and investments. Because of this, the amount, if any, of Livingston County Road Commission funds that is covered by federal depository insurance of \$100,000 per financial institution, is not determinable. Any balance not covered by federal depository insurance is uninsured and uncollateralized.

Neither the Road Commission nor Livingston County has experienced a loss on investments due to bank failure. Therefore, the Road Commission considers its custodial credit risk to be minimal.

Note 4. ACCOUNTS RECEIVABLE/DEFERRED REVENUE

The accounts receivable (and deferred revenue) recorded in the Road Commission's Statement of Net Assets (and the Balance Sheet) can be summarized as follows:

	Accounts Receivable	Deferred Revenue
State highway - other	\$1,952,049	-
Due from State of Michigan	339,460	-
Due on county road agreements	1,294,480	539,800
Due on special assessments	228,437	228,437
Sundry accounts	82,919	-
	<u>\$3,897,345</u>	<u>768,237</u>

Note 5. CAPITAL ASSETS

A summary of capital asset activity follows:

	Balance January 1, 2005	Additions	Deletions	Balance December 31, 2005
Capital Assets Not Being Depreciated:				
Land and improvements	\$ 267,939	-	-	267,939
Land easements/right of way	579,301	-	-	579,301
Subtotal	847,240	-	-	847,240
Capital Assets Being Depreciated:				
Buildings	6,993,816	4,500	-	6,998,316
Road equipment	8,001,677	1,707,538	1,045,120	8,664,095
Shop equipment	182,820	10,240	-	193,060
Office equipment	402,993	15,842	1,658	417,177
Engineering equipment	109,920	552	-	110,472
Yard and storage	71,497	-	-	71,497
Infrastructure-roads	92,837,162	9,989,068	-	102,826,230
Infrastructure-bridges	11,641,445	1,071,221	-	12,712,666
Depletable assets	488,543	-	-	488,543
Subtotal	120,729,873	12,798,961	1,046,778	132,482,056
Less Accumulated Depreciation:				
Buildings	1,989,203	150,381	-	2,139,584
Road equipment	6,393,667	834,873	926,667	6,301,873
Shop equipment	175,571	4,088	-	179,659
Office equipment	331,726	24,520	1,658	354,588
Engineering equipment	72,681	6,780	-	79,461
Yard and storage	37,044	5,668	-	42,712
Infrastructure-roads	43,284,194	4,826,796	-	48,110,990
Infrastructure-bridges	2,073,683	238,765	-	2,312,448
Depletable assets	118,985	-	-	118,985
Subtotal	54,476,754	6,091,871	928,325	59,640,300
Net Capital Assets Being Depreciated	66,253,119	6,707,090	118,453	72,841,756
Total Net Capital Assets	\$ 67,100,359	6,707,090	118,453	73,688,996

The amount of depreciation (on all assets except infrastructure) distributed to the various accounts of Livingston County Road Commission is as follows:

Equipment expense - direct	\$ 841,655
Equipment expense - indirect	160,135
Administrative	24,520
Total depreciation expense	\$1,026,310

Note 6. NET CAPITAL OUTLAY

In the Fund Financial Statements, Livingston County Road Commission follows the accounting principle generally accepted in the United States of America for Road Commissions of charging depreciation expense to various expenditure accounts as listed in Note 5. The offsetting entry is to credit a depreciation account which is offset against capital outlay for report purposes. Actual capital outlay and current depreciation for 2005 were \$676,804 and \$1,026,310, respectively, resulting in a net capital outlay credit of \$349,506.

Note 7. ACCUMULATED VACATION AND SICK LEAVE

Vacation is earned in varying amounts depending on the number of years of service of an employee and is made available to the employee at the beginning of each calendar year, not to exceed a total accumulation of 30 days.

Sick leave is accumulated at the rate of one day for each month of service, not to exceed a total accumulation of 60 days.

It is the policy of the Road Commission to pay unused vacation pay at death, retirement or voluntary resignation up to an amount not to exceed 30 days; sick pay is payable up to 35 days

Note 7. ACCUMULATED VACATION AND SICK LEAVE (Concluded)

when an employee retires or dies. Board policy states that no payment is to be made for unused sick leave upon separation of employment except by retirement or death.

Total accumulated vacation and sick leave has been recorded in the Statement of Net Assets. At December 31, 2005, accumulated vacation and sick leave due to employees at retirement was \$183,622 and \$193,441, respectively.

Note 8. LONG-TERM DEBT

The following is a summary of long-term debt transactions for the year ended December 31, 2005:

	Balance January 1, 2005	Net Additions (Deductions)	Balance December 31, 2005
1995 capital lease payable to Livingston County, due in variable semi-annual installments through July 1, 2008, interest ranging from 4.25% to 5.8%, liability shown net of interest	\$1,720,000	(390,000)	1,330,000
2001 capital lease payable to Livingston County, due in variable semi-annual installments through July 1, 2010, interest ranging from 3.2% to 4.35%, liability shown net of interest	1,110,000	-	1,110,000
Special assessment payable, payable in annual installments of \$9,456 through 2008, including interest at 8.08%	29,837	(7,090)	22,747
Livingston County, 1999 Michigan Transportation Fund Notes, dated August 1, 1999, payable in annual installments of \$95,000 through 2009, plus interest ranging from 5.0% to 6.49%	475,000	(95,000)	380,000
Livingston County, 2001 Michigan Transportation Fund Notes dated July 1, 2001, payable in annual installments of \$170,000 through 2011, plus interest ranging from 4.0% to 4.35%	1,190,000	(170,000)	1,020,000
Caterpillar Financial Services Corporation, capital lease, due in annual installments of \$16,801, including interest at 5.9%, through 2004, remaining balance due 2005, secured by equipment	123,002	(123,002)	-
Caterpillar Financial Services Corporation, capital lease, due in annual installments of \$16,801, including interest at 5.9%, through 2004, remaining balance due 2005, secured by equipment	123,002	(123,002)	-
Caterpillar Financial Services Corporation, capital lease, due in annual installments of \$18,552, including interest at 5.9%, through 2004, remaining balance due 2005, secured by equipment	147,529	(147,529)	-
Caterpillar Financial Services Corporation, capital lease, due in annual installments of \$18,552, including interest at 5.9%, through 2004, remaining balance due 2005, secured by equipment	147,529	(147,529)	-
Caterpillar Financial Services Corporation, capital lease, due in annual installments of \$8,748, including interest at 3.0%, through 2006, remaining balance due 2007, secured by equipment	131,978	(4,839)	127,139
Caterpillar Financial Services Corporation, capital lease, due in annual installments of \$31,061, including interest at 4.75%, through 2009, remaining balance due 2010, secured by equipment	-	190,076	190,076
Caterpillar Financial Services Corporation, capital lease, due in annual installments of \$31,061, including interest at 4.75%, through 2009, remaining balance due 2010, secured by equipment	-	190,076	190,076
Caterpillar Financial Services Corporation, capital lease, due in annual installments of \$31,061, including interest at 4.75%, through 2009, remaining balance due 2010, secured by equipment	-	190,076	190,076
Caterpillar Financial Services Corporation, capital lease, due in annual installments of \$31,061, including interest at 4.75%, through 2009, remaining balance due 2010, secured by equipment	-	190,076	190,076
Caterpillar Financial Services Corporation, capital lease, due in annual installments of \$58,882, including interest at 3.50%, through 2006, due 2007, secured by equipment	-	56,745	56,745
Accrued compensated absences	368,356	8,707	377,063
	<u>\$5,566,233</u>	<u>(382,235)</u>	<u>5,183,998</u>

Note 8. LONG-TERM DEBT (Concluded)

The current and long-term portions of Livingston County Road Commission's long-term debt are summarized below:

	<u>Due within one year</u>	<u>Due after one year</u>
1995 capital lease payable to Livingston County	\$ 415,000	915,000
2001 capital lease payable to Livingston County	-	1,110,000
Special assessment payable Livingston County, 1999 Michigan Transportation Fund Notes	7,618	15,129
Livingston County, 2001 Michigan Transportation Fund Notes	95,000	285,000
Caterpillar Financial Services Corporation, capital lease	170,000	850,000
Caterpillar Financial Services Corporation, capital lease	22,033	168,043
Caterpillar Financial Services Corporation, capital lease	22,033	168,043
Caterpillar Financial Services Corporation, capital lease	22,033	168,043
Caterpillar Financial Services Corporation, capital lease	22,033	168,043
Caterpillar Financial Services Corporation, capital lease	22,033	168,043
Caterpillar Financial Services Corporation, capital lease	56,745	-
Caterpillar Financial Services Corporation, capital lease	4,934	122,205
Accrued compensated absences	377,063	-
	<u>\$1,214,492</u>	<u>3,969,506</u>

The annual requirements to amortize all debt outstanding as of December 31, 2005 (plus interest payments of \$690,077) are as follows:

2006	\$1,214,492
2007	932,755
2008	838,595
2009	911,296
2010	1,116,860
Thereafter	170,000
	<u>\$5,183,998</u>

Aggregate maturities of the capital lease obligations are shown in Note 9.

As of December 31, 2005, Livingston County Road Commission was not liable for any short-term debt.

Note 9. CAPITAL LEASE OBLIGATIONS

Livingston County Road Commission entered into a long-term lease agreement with Livingston County for financing construction of a new facility for the Road Commission. The lease provides for semi-annual payments in amounts sufficient to meet annual debt service requirements on bonds issued by the Livingston County Building Authority. The bonds have been pledged with the full faith and credit of Livingston County. The Livingston County Building Authority leases the building to Livingston County which, in turn, sub-leases the building to the Road Commission. The Road Commission is responsible for all costs associated with the building including repairs, maintenance, assessments and utilities. Since the lease is a financing arrangement which transfers ownership of the facility to the Road Commission at the conclusion of the lease term, related transactions have been recorded in the appropriate funds. Debt service payments on the long-term debt are recorded in the Debt Service Fund.

Lease obligations are reported in the Statement of Net Assets. Capital outlay for the new facility is included in the Capital Assets as follows:

Fixed Asset Accounts:

Land	\$ 70,070
Buildings	6,113,249
Shop equipment	96,162
Office equipment	135,011
Engineering equipment	12,333
Yard and storage	<u>20,909</u>
Total fixed asset accounts	<u>6,447,734</u>

Accumulated Depreciation:

Buildings	1,936,551
Shop equipment	96,162
Office equipment	135,011
Engineering equipment	12,333
Yard and storage	<u>20,909</u>
Total accumulated depreciation	<u>2,200,966</u>
Net capital lease assets	<u>\$4,246,768</u>

Note 9. CAPITAL LEASE OBLIGATIONS (Continued)

Future minimum lease payments to be paid by Livingston County Road Commission to Livingston County for the building capital lease are as follows:

2006	\$ 530,055
2007	535,115
2008	533,580
2009	594,950
2010	<u>590,425</u>
Total minimum lease payments	2,784,125
Less amounts representing interest, 4.25% to 9.5%	<u>344,125</u>
Present value of future minimum lease payments (included in Note 8)	<u>\$2,440,000</u>

During 2000, Livingston County Road Commission entered into four capital lease agreements with Caterpillar Financial Services Corporation for the lease of four motor graders. The lease agreements will transfer ownership of the equipment to Livingston County Road Commission at the end of the lease term. These motor graders were disposed of during 2005.

During 2002, Livingston County Road Commission entered into a capital lease agreement with Caterpillar Financial Services Corporation for the lease of a motor grader. The lease agreement will transfer ownership of the equipment to Livingston County Road Commission at the end of the lease term.

During 2005, Livingston County Road Commission entered into five capital lease agreements with Caterpillar Financial Services Corporation for the lease of five motor graders. The lease agreements will transfer ownership of the equipment to Livingston County Road Commission at the end of the lease term.

Capital outlay for the motor graders is included in the Livingston County Road Commission government-wide Statement of Net Assets in the amount of \$1,212,227. Accumulated depreciation on the motor graders at year end was \$275,354, resulting in a net book value of \$936,873.

Note 9. CAPITAL LEASE OBLIGATIONS (Concluded)

Future minimum lease payments to be paid by Livingston County Road Commission on the leased equipment are as follows:

2006	\$ 191,728
2007	250,115
2008	124,244
2009	124,244
2010	<u>400,000</u>
Total minimum lease payments	1,090,331
Less amounts representing interest at 3.0% to 4.75%	<u>146,143</u>
Present value of future minimum lease payments (included in Note 8)	\$ <u>944,188</u>

Note 10. PENSION PLAN

A. Plan Description

Livingston County Road Commission participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by 2.25 percent times the final average compensation (FAC), with a maximum benefit of 80 percent of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2005.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Note 10. PENSION PLAN (Concluded)

B. Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Livingston County Road Commission's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. Livingston County Road Commission is required to contribute at an actuarially determined rate. During 2005, the rate was 11.83%. The rate was based on the 2003 actuarial valuation. Effective January 1, 2006, the rate will increase to 12.66% based on the 2004 actuarial valuation.

C. Annual Pension Cost

During the fiscal year ended December 31, 2005, Livingston County Road Commission's contributions totaling \$395,430 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2003. The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

D. Three Year Trend Information

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$308,798	100%	None
2004	376,746	100	None
2005	395,430	100	None

E. Required Supplementary Information - Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/03	\$11,296,250	\$12,887,355	\$1,591,105	87.7%	\$3,152,867	50.5%
12/31/04	11,937,158	14,575,528	2,638,370	81.9	3,674,265	71.8
12/31/05	12,540,449	14,941,095	2,400,646	83.9	3,507,511	68.4

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 11. RISK MANAGEMENT

Livingston County Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries, as well as benefits provided to employees. The Road Commission participates in the Michigan County Road Commission Self-Insurance Pool for general liability, auto liability, errors and omissions, building and contents, equipment physical damage, and employee benefit programs. The employee benefits program provides coverage for group life insurance, group accident or health insurance, workers' compensation, unemployment, and disability insurance. In addition, the Road Commission has purchased a commercial health insurance policy to cover medical and sick benefits. The Road Commission is insured for environmental cleanup losses relating to the underground fuel storage tanks. The Road Commission is uninsured for acts of God.

The Michigan County Road Commission Self-Insurance Pool operates as a common risk-sharing management program for road commissions in Michigan. Member premiums are used to purchase insurance coverage and pay member claims in excess of deductible amounts. The Road Commission currently has a \$1,000 deductible for each automobile liability occurrence, \$2,500 deductible for each error and omission liability occurrence, and a \$5,000 deductible for each and every loss incurred on the remaining lines of coverage. The risk pool's coverage will pay losses up to \$10,500,000 per occurrence. Any liability for losses which exceed this amount would remain with the Road Commission. Livingston County Road Commission has never incurred any losses which have exceeded the insured amount; therefore, an adjustment for incurred but not reported claims has not been accrued.

Note 12. OTHER POSTRETIREMENT BENEFITS

In addition to the pension benefits described in Note 10, the Road Commission provides postretirement health care benefits to all employees who retire from the Road Commission, in accordance with the agreement between the Board of County Road Commissioners and the American Federation of State, County, and Municipal Employees Council #25 AFL-CIO Local #1071. Currently, there are thirty-seven retirees. The Road Commission provides health insurance coverage for retirees on a "pay as you go" basis. If spousal coverage is elected, the retiree must bear the cost of the insurance premiums for the spouse. Expenditures for postretirement health insurance are recognized when the premiums are paid. Expenditures of \$237,402 were recognized during 2005 for postretirement health insurance premiums. This amount is net of employee reimbursements during 2005 of \$106,031.

Note 13. CONTINGENT LIABILITIES

Livingston County Road Commission has been served in civil actions brought against it seeking damages from matters within the geographical limits of Livingston County. In the opinion of the administration and its corporation counsel, the settlement of these civil actions should have no material effect upon the financial position of the Road Commission.

Note 14. GAIN ON DISPOSAL OF MOTOR GRADERS

In April 2005, the Road Commission disposed of four leased motor graders. At the date of disposal, these assets had a total net book value of \$118,453, resulting in a realized gain of \$433,047 for the year ended December 31, 2005.

Note 15. LEASE AGREEMENT WITH LIVINGSTON COUNTY

During 2002, Livingston County Road Commission entered into an agreement to lease land to Livingston County for the purpose of constructing an ambulance station on Livingston County Road Commission premises. The lease agreement is for a term of twenty years, with the option to renew for an additional twenty years at the lessee's sole option and an additional twenty years beyond that upon mutual agreement by both parties. Lease income for the lease term is \$1 per year.

Note 16. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

The approved budget of Livingston County Road Commission is adopted to the activity level. During the year, expenditures incurred in excess of amounts appropriated were as follows:

<u>Activity Level</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Primary road structures	\$328,296	351,507	23,211
Local road structures	760,657	767,865	7,208
Equipment expense - net	(28,770)	271,537	300,307

Note 17. FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2005, the Federal grants received and expended by the Road Commission were \$3,132,924 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT. These contracted projects are included in MDOT's single audit. Livingston County Road Commission is not subject to single audit requirements.

NOTES TO FINANCIAL STATEMENTS (Concluded)

Note 18. SUBSEQUENT EVENT

During 2005, construction of a roundabout on the east side of a state highway was completed. During 2006, construction of two additional roundabouts on the opposite side of the highway will be completed. All three roundabouts involve Livingston County Road Commission and State of Michigan right-of-way, County road infrastructure and State highway infrastructure (on/off ramps). At December 31, 2005, the ownership portions of the completed roundabout had not been determined.

It is anticipated that the ownership portions of the three roundabouts will be determined during 2006. Therefore, Livingston County Road Commission will reflect their portion of the infrastructure of the roundabouts and the corresponding non-cash revenue (the State of Michigan funded the projects) in 2006.

LIVINGSTON COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUES
BUDGETARY COMPARISON SCHEDULE

SPECIAL REVENUE FUND
For the Year Ended December 31, 2005

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
State Grants:				
Michigan Transportation Fund				
Engineering	\$ 10,000	10,000	10,000	-
Primary urban road	1,177,100	1,276,473	1,276,473	-
Local urban road	562,300	614,949	614,949	-
Primary road	7,414,600	7,167,325	7,167,325	-
Local road	3,380,700	3,239,709	3,239,709	-
Highway construction - critical bridge	55,000	83,178	53,178	(30,000)
Economic development	556,000	466,116	466,116	-
Federal Grants:				
Secondary	2,942,598	2,764,678	2,744,521	(20,157)
Critical bridges	332,000	366,246	388,403	22,157
Charges for Services	10,000	14,983	72,957	57,974
Contributions:				
Local units	2,250,000	3,412,841	3,385,338	(27,503)
Private sources	-	-	85,162	85,162
Special Assessments	25,382	25,382	25,382	-
Interest Income	39,000	39,000	39,438	438
Investment Income	40,000	112,418	123,295	10,877
Proceeds from Disposal of Assets	10,000	571,878	571,728	(150)
Other Revenues:				
Permits	100,000	104,000	113,217	9,217
Maps	100	76	76	-
Accident claims	1,000	150	150	-
Miscellaneous	1,000	3,260	58,254	54,994
Total Revenues	18,906,780	20,272,662	20,435,671	163,009
Fund Balance - January 1, 2005	3,011,878	3,012,045		
Total Budget	\$ 21,918,658	23,284,707		

LIVINGSTON COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF EXPENDITURES
BUDGETARY COMPARISON SCHEDULE

SPECIAL REVENUE FUND
For the Year Ended December 31, 2005

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
Primary Road:				
Heavy maintenance	\$ 7,673,953	4,836,738	4,542,643	294,095
Routine maintenance	4,000,000	3,700,000	3,676,989	23,011
	<u>11,673,953</u>	<u>8,536,738</u>	<u>8,219,632</u>	<u>317,106</u>
Local Road:				
Heavy maintenance	1,517,186	5,645,451	5,489,953	155,498
Routine maintenance	4,100,000	3,850,000	3,959,420	(109,420)
	<u>5,617,186</u>	<u>9,495,451</u>	<u>9,449,373</u>	<u>46,078</u>
Primary Road Structures:				
Heavy maintenance	745,436	313,296	347,068	(33,772)
Routine maintenance	15,000	15,000	4,439	10,561
	<u>760,436</u>	<u>328,296</u>	<u>351,507</u>	<u>(23,211)</u>
Local Road Structures:				
Heavy maintenance	426,872	750,657	753,268	(2,611)
Routine maintenance	10,000	10,000	14,597	(4,597)
	<u>436,872</u>	<u>760,657</u>	<u>767,865</u>	<u>(7,208)</u>
Roadside Parks:				
Maintenance	11,000	10,000	5,055	4,945
Equipment Expense - Net				
Direct	1,420,000	1,615,000	1,571,627	43,373
Indirect	1,164,400	1,163,934	1,534,462	(370,528)
Operating	236,500	450,000	491,089	(41,089)
Less: Equipment rental	(2,820,900)	(3,257,704)	(3,325,641)	67,937
	<u>-</u>	<u>(28,770)</u>	<u>271,537</u>	<u>(300,307)</u>
Administrative Expense	1,018,126	710,677	667,888	42,789
Capital Outlay - Net				
Capital outlay	792,390	682,830	676,804	6,026
Less: Depreciation and depletion	(850,000)	(720,000)	(1,026,310)	306,310
	<u>(57,610)</u>	<u>(37,170)</u>	<u>(349,506)</u>	<u>312,336</u>
Debt Service:				
Principal retirement	401,005	1,111,039	1,056,072	54,967
Interest and fiscal charges	80,215	113,198	95,083	18,115
	<u>481,220</u>	<u>1,224,237</u>	<u>1,151,155</u>	<u>73,082</u>
Total Expenditures	\$ 19,941,183	21,000,116	20,534,506	465,610

LIVINGSTON COUNTY ROAD COMMISSION
 REQUIRED SUPPLEMENTARY INFORMATION
 STATEMENT OF OTHER FINANCING USES
 BUDGETARY COMPARISON SCHEDULE

SPECIAL REVENUE FUND
 For the Year Ended December 31, 2005

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Operating Transfer Out:				
Debt Service Fund	\$ <u>548,020</u>	<u>533,862</u>	<u>478,170</u>	<u>55,692</u>
Total Expenditures and Other Financing Uses	20,489,203	21,533,978	<u>21,012,676</u>	<u>521,302</u>
Fund Balance - December 31, 2005	<u>1,429,455</u>	<u>1,750,729</u>		
Total Budget	\$ <u>21,918,658</u>	<u>23,284,707</u>		

LIVINGSTON COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES

SPECIAL REVENUE FUND
For the Year Ended December 31, 2005

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Total Revenues	\$ 10,247,505	9,222,015	966,151	20,435,671
Total Expenditures	<u>9,101,400</u>	<u>10,960,536</u>	<u>950,740</u>	<u>21,012,676</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>1,146,105</u>	<u>(1,738,521)</u>	<u>15,411</u>	<u>(577,005)</u>
Other Financing Sources (Uses):				
Operating transfers in	-	1,146,105	-	1,146,105
Operating transfers out	<u>(1,146,105)</u>	<u>-</u>	<u>-</u>	<u>(1,146,105)</u>
Total Other Financing Sources (Uses)	<u>(1,146,105)</u>	<u>1,146,105</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Sources over (under) Expenditures and Other Uses	-	(592,416)	15,411	(577,005)
Fund Balance - January 1, 2005	3,487,484	-	2,631,490	6,118,974
Interfund Transfer	<u>-</u>	<u>592,416</u>	<u>(592,416)</u>	<u>-</u>
Fund Balance - December 31, 2005	<u>\$ 3,487,484</u>	<u>-</u>	<u>2,054,485</u>	<u>5,541,969</u>

LIVINGSTON COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES

SPECIAL REVENUE FUND
For the Year Ended December 31, 2005

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
State Grants:				
Michigan Transportation Fund:				
Engineering	\$ 6,887	3,113	-	10,000
Urban road	1,276,473	614,949	-	1,891,422
Allocation	7,167,325	3,239,709	-	10,407,034
Highway construction - critical bridge	4,021	49,157	-	53,178
Economic Development Funds	466,116	-	-	466,116
Federal Grants:				
Secondary	1,147,279	1,597,242	-	2,744,521
Bridge	41,600	346,803	-	388,403
Charges for Services	-	-	72,957	72,957
Contributions from Local Units	27,260	3,358,078	-	3,385,338
Contributions from Private Sources	85,162	-	-	85,162
Special Assessments	25,382	-	-	25,382
Interest Income	-	12,964	26,473	39,437
Investment Income	-	-	123,295	123,295
Proceeds from Disposal of Assets	-	-	571,728	571,728
Other Revenue:				
Permits	-	-	113,217	113,217
Maps	-	-	76	76
Accident claims	-	-	151	151
Miscellaneous	-	-	58,254	58,254
Total Revenues	\$ 10,247,505	9,222,015	966,151	20,435,671

LIVINGSTON COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES

SPECIAL REVENUE FUND
For the Year Ended December 31, 2005

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Primary Road:				
Heavy maintenance	\$ 4,570,923	-	-	4,570,923
Maintenance	3,676,990	-	-	3,676,990
Local Road:				
Heavy maintenance	-	5,490,030	-	5,490,030
Maintenance	-	3,959,342	-	3,959,342
Primary Road Structures:				
Heavy maintenance	317,953	-	-	317,953
Maintenance	4,440	-	-	4,440
Local Road Structures:				
Heavy maintenance	-	753,268	-	753,268
Maintenance	-	14,597	-	14,597
Roadside Parks:				
Maintenance	5,055	-	-	5,055
Equipment Expense - Net	102,221	159,882	10,268	272,371
Administrative Expense	304,768	363,120	-	667,888
Capital Outlay - Net	-	-	(349,506)	(349,506)
Debt Service:				
Principal retirement	95,000	170,000	1,181,072	1,446,072
Interest and fiscal charges	24,050	50,297	108,906	183,253
Total Expenditures	\$ <u>9,101,400</u>	<u>10,960,536</u>	<u>950,740</u>	<u>21,012,676</u>

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To the Board of County Road Commissioners
Livingston County, Michigan

In planning and performing our audit of the financial statements of Livingston County Road Commission for the year ended December 31, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, would adversely affect Livingston County Road Commission's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

STATUS OF PRIOR YEAR'S REPORTABLE CONDITIONS

We found that the cash balance per the distribution report did not agree with the cash balance per the Livingston County Treasurer.

Every effort should be made to ensure that cash balances per the distribution report correspond with the cash balances per the Livingston County Treasurer. Accurate cash balances will be more meaningful for cash flow projections.

Status: This condition has remained unchanged. The Road Commission should implement procedures that would address this issue and provide for the monthly reconciliation of the bank accounts to the County Treasurer's balances.

STATUS OF PRIOR YEAR'S REPORTABLE CONDITIONS (Concluded)

INVENTORY

We noted that the inventory status reports did not agree with the balances in the general ledger.

This situation has remained unchanged for a number of years and indicates a problem in either the computer program or the reconciliation procedures. It is imperative that computer generated reports are in agreement so that an accurate inventory status is available at all times. The inventory status reports should be reconciled to the general ledger at the end of every month so that the most accurate financial data is available. Any differences between the balances should be investigated and resolved as soon as possible.

Status: This condition has been corrected.

INTERNAL CONTROL PROCEDURES

The assets and liabilities reported on the distribution report are not being reviewed on a regular basis.

This situation has remained unchanged from the prior year. The distribution report should be reviewed in its entirety on a periodic basis. This review is necessary in order to detect any accounts with unusual or erroneous balances. Any unusual and/or incorrect account balances should be reviewed and corrected in a timely manner. This will provide for proper and accurate accounting information throughout the year.

Status: There is no change in this condition. Internal review and monitoring procedures are an integral part of internal control. The Road Commission may wish to implement a policy that would provide for the periodic review of the distribution report so that errors may be detected and addressed in a timely manner.

CURRENT YEAR REPORTABLE CONDITION

COMPUTER CONTROLS

During our review of controls over the computer, we found that the computer program allows the user to delete entries.

The Road Commission should implement a policy that discourages the practice of deleting entries. This will provide stronger computer controls and an audit trail for all activity that occurs in the computer system.

To the Board of County Road Commissioners
Livingston County, Michigan
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A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls. However, none of the reportable conditions described above is believed to be a material weakness.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in our audit of the December 31, 2005 financial statements, and this report does not affect our report on those financial statements dated June 21, 2006. We have not considered the internal control since the date of our report.

We also noted matters that are meant as a means of improvement in the Road Commission's system of internal control. These items are discussed in the attached memorandum.

This report is intended solely for the information and use of management, others within the organization, and the Board of County Road Commissioners and is not intended to be and should not be used by anyone other than these specified parties.

Bredemeyer, Wagner & Co., P.C.

Howell, Michigan
June 21, 2006

STATUS OF PRIOR YEARS' RECOMMENDATIONS

BUDGETING

We noted some expenditures in excess of the budgeted amounts.

Public Act 621 requires that budgeted expenditures be equal to or exceed actual expenditures. This may require amendments to the budget during the year when it appears that actual expenditures may exceed budgeted amounts.

Status: There was no change in this condition.

INTERNAL CONTROL PROCEDURES

A general ledger report was not printed for a certain month.

As the Livingston County Road Commission is in the process of transitioning to a new computer system, it is important that all monthly reports be printed. This will help ensure that the Road Commission has adequate accounting records for all months.

Status: No monthly reports have been printed since the transition to the new computer system. Reports should be printed monthly in order to maintain adequate accounting records and provide a loss contingency plan for any unexpected computer crashes or loss of data. The Road Commission may wish to review the reports that are available on the computer system and determine which reports should be printed.

The Deferred Compensation and related fund balance accounts do not appear on the computerized distribution report.

Since the Livingston County Road Commission has moved to a completely computerized accounting system, all accounts should be included on the distribution report. This will provide proper accounting records for all accounts of the Road Commission.

Status: This situation has been corrected. The General Fixed Asset and the General Long-Term Debt Account Groups now appear on the distribution report. Continual care needs to be taken to ensure that all activity is recorded in these accounts.

INFRASTRUCTURE

The roads dedicated to the Livingston County Road Commission were not included in the GASB 34 infrastructure listing.

While the value of the roads dedicated to Livingston County Road Commission represents an immaterial amount of the total infrastructure,

STATUS OF PRIOR YEARS' RECOMMENDATIONS (Continued)

INFRASTRUCTURE (Concluded)

the infrastructure reports will be more complete and accurate if the value of these roads is included in the total infrastructure listing.

Status: The Road Commission is in the process of determining the value of the dedicated roads and the portion allocable to non-depreciable right-of-way so that this infrastructure can be included in the infrastructure listing.

FIXED ASSETS

We found that certain assets in the capital outlay account were not included in the fixed asset report and that some assets in the fixed asset report were not being depreciated.

Care should be taken to ensure that all capital outlay assets are included in the fixed asset report and that all assets in the fixed asset report are depreciated. Comparing the fixed asset additions to the balance in the capital outlay account and scanning the fixed asset report for current depreciation are two effective procedures to help ensure that fixed assets are properly accounted for and depreciated.

Status: This situation has improved. Continual care needs to be taken to ensure all assets are being depreciated.

PAYROLL

While performing compliance tests for payroll, we noted that the computer is not calculating federal withholding correctly on employees who have deferred compensation.

The computer calculation of federal withholding is too high for those employees who have deferred compensation. The reason for this calculation error should be investigated and corrected as soon as possible to provide the proper amount of withholding for all employees.

Status: This situation has been corrected.

The reports submitted to the County Treasurer for payroll include the employer portion of social security and medicare tax.

Accurate data is needed to ensure the correct filing of Form 941 reports. Payroll reporting information should not include employer payroll tax as part of gross wages. The format of the payroll total reports should be corrected as soon as possible to ensure the correct filing of the quarterly payroll reports.

STATUS OF PRIOR YEARS' RECOMMENDATIONS (Concluded)

PAYROLL (Concluded)

Status: The computer generated reports have remained unchanged. However, the accounting department prepares a report separating the employer portion of social security and medicare taxes from the total gross wages. This report is then submitted to the County Treasurer. The report provides the necessary information needed to file correct Form 941 reports.

ACT 51 REPORT

In the past, Road Commission personnel have had difficulties in meeting the filing deadline for the Act 51 Report.

The information for the analytical statements required to be included in the financial report is obtained from the Act 51 Report. We are available to render any assistance needed to complete the Act 51 Report so that the audited financial statements and the Act 51 Report can be filed prior to the filing deadlines.

Status: There has been some improvement in this condition.

CURRENT YEAR RECOMMENDATIONS

INTERNAL CONTROL PROCEDURES

INVESTMENTS

During the year an investment account was opened at a local bank which listed Road Commission personnel as the sole authorized signer.

The Road Commission's investment policy states that all investments of the Road Commission are to be made by the Livingston County Treasurer. Compliance with policies is necessary to maintain a strong internal control structure. The Road Commission should consider placing the name of the Livingston County Treasurer on the new investment account and on all checking accounts.

PAYROLL

During the performance of our audit procedures, it was observed that an employee was given another employee's check to deliver to that employee.

The Road Commission may wish to implement a policy that specifically states which personnel have paycheck distribution authority and under what circumstances. The Road Commission has direct deposit and direct mailing options available for all employees, and these options should be encouraged for employees who have difficulty picking up their paychecks from the accounting department.

CURRENT YEAR RECOMMENDATIONS (Concluded)

INTERNAL CONTROL PROCEDURES (Concluded)

PAYROLL (Concluded)

During payroll testing, we noticed that payroll deductions and withholdings do not match the information in the payroll file for some employees.

The Road Commission may wish to send a memo to all employees informing them of the current amounts being deducted and withheld from their paychecks and request that the employees confirm the accuracy of this information. As an alternative, consideration might be given to having all employees complete new withholding and deduction information forms. This will provide up-to-date documentation for payroll withholdings and deductions.

COMPUTER CONTROLS

We noted a few instances in which revenues were recorded in expense accounts and expenses were recorded in revenue accounts.

Care should be taken to ensure that amounts are properly recorded in the correct accounts. This will help ensure accurate financial data needed for budgeting and analytical purposes. A periodic review of the distribution report would help to find such errors in a timely matter.

We found that an adjustment was made through the receipts journal component of the computer system.

All adjusting journal entries should be made using the adjustment component of the computer system. In this way, all adjusting journal entries will be located in the same component, thereby assisting in both internal review and audit procedures.

ORGANIZATIONAL STRUCTURE

The size of Livingston County Road Commission's staff precludes optimum segregation of duties.

Because complete segregation of duties is not possible, the Board of County Road Commissioners should remain actively involved in the financial affairs of Livingston County Road Commission to provide oversight and independent review functions.